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If you have any comments on this draft form, you can submit them to us on our website at www.ftb.ca.gov/forms/drafts/index.html.

2008 Passive Activity Loss Limitations**3801****Attach to Form 540, Long Form 540NR, Form 541, or Form 100S (S Corporations).**

Name(s) as shown on return

SSN, ITIN, FEIN, or CA. corporation no.

Part I 2008 Passive Activity Loss

See the instructions for Worksheet 1 and Worksheet 3 for federal Form 8582 before completing Part I. Be sure to use California amounts

Rental Real Estate Activities with Active Participation

1a Activities with net income from Worksheet 1, column (a)	1a		00	
1b Activities with net loss from Worksheet 1, column (b)	1b	()	00	
1c Prior year unallowed losses from Worksheet 1, column (c)	1c	()	00	
1d Combine line 1a, line 1b, and line 1c	1d		00	

All Other Passive Activities

2a Activities with net income from Worksheet 2, column (a)	2a		00	
2b Activities with net loss from Worksheet 2, column (b)	2b	()	00	
2c Prior year unallowed losses from Worksheet 2, column (c)	2c	()	00	
2d Combine line 2a, line 2b, and line 2c	2d		00	
3 Combine line 1d and line 2d. If the result is net income or zero, see the instructions for line 3. If line 3 and line 1d are losses, go to line 4. Otherwise, enter -0- on line 9 and go to line 10. See instructions	3		00	

Part II Special Allowance for Rental Real Estate with Active Participation

Enter all numbers in Part II as positive amounts. See instructions.

4 Enter the smaller of losses from line 1d or line 3	4		00
5 Enter \$150,000. If married/RDP filing a separate return, see instructions	5		00
6 Enter federal modified adjusted gross income, but not less than zero. See instructions. If line 6 is equal to or more than line 5, skip line 7 and line 8, enter -0- on line 9, and then go to line 10. Otherwise, go to line 7	6		00
7 Subtract line 6 from line 5	7		00
8 Multiply line 7 by 50% (.50). Do not enter more than \$25,000	8		00
9 Enter the smaller of line 4 or line 8	9		00

Part III Total Losses Allowed

10 Add the income, if any, from line 1a and line 2a and enter the total	10		00
11 Total losses allowed from all passive activities for 2008. Add line 9 and line 10	11		00

See the instructions on Page 2 to find out how to report the losses on your tax return.

California Worksheets

Attach Side 2 to your California tax return.

California Passive Activity Worksheet (See General Instructions for Step 1.)

Use this worksheet to figure California income (loss) from passive activities **before** application of passive activity loss (PAL) rules.

(a) Passive Activity Enter a description of the activity	(b) Federal Schedule Enter the name of the federal form or schedule on which you reported the activity	(c) California Schedule Enter the name of the California form or schedule, if any, used to calculate the California adjustment	(d) Federal Amount Enter your current year federal net income (loss) before application of the PAL rules	(e) California Adjustment Enter any adjustment resulting from differences in federal and California law	(f) California Amount Combine column (d) and column (e)

California Adjustment Worksheets (See General Instructions for Step 4.)

Use these worksheets to figure your California adjustments **after** application of the PAL rules.

(a) Activities Enter a description of the activity. Group activities by the federal schedules on which they were reported	(b) Passive or Nonpassive Enter the passive or nonpassive character of the activity for California purposes	(c) California Amount Enter the California net income (loss) from the activity after application of the PAL rules	(d) Federal Amount Enter the federal net income (loss) from the activity after application of the PAL rules	(e) California Adjustment Subtract the Total amount of column (d) from the Total amount of column (c) and enter the difference in column (e) below. Individuals should transfer this amount to Schedule CA (540 or 540NR) as follows:
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(a) Schedule C Activities	(b) Passive or Nonpassive	(c) California Amount	(d) Federal Amount	(e) California Adjustment
				If the amount below is positive , transfer the amount to Schedule CA (540 or 540NR), line 12, column C.
				If the amount below is negative , transfer the amount to Schedule CA (540 or 540NR), (as a positive amount) line 12, column B.
Total		1(c)	1(d)*	1(e)

(a) Schedule E Activities	(b) Passive or Nonpassive	(c) California Amount	(d) Federal Amount	(e) California Adjustment
				If the amount below is positive , transfer the amount to Schedule CA (540 or 540NR), line 17, column C.
				If the amount below is negative , transfer the amount to Schedule CA (540 or 540NR), (as a positive amount) line 17, column B.
Total		2(c)	2(d)**	2(e)

(a) Schedule F Activities	(b) Passive or Nonpassive	(c) California Amount	(d) Federal Amount	(e) California Adjustment
				If the amount below is positive , transfer the amount to Schedule CA (540 or 540NR), line 18, column C.
				If the amount below is negative , transfer the amount to Schedule CA (540 or 540NR), (as a positive amount) line 18, column B.
Total		3(c)	3(d)***	3(e)

- * This amount should be the same as the amount reported on Schedule CA (540 or 540NR), line 12, column A.
 ** This amount should be the same as the amount reported on Schedule CA (540 or 540NR), line 17, column A.
 *** This amount should be the same as the amount reported on Schedule CA (540 or 540NR), line 18, column A.

Worksheets 1 through 6 are not required to be filed with your California tax return and may be detached before filing form FTB 3801. Keep a copy of the worksheets for your records. Refer to the instructions for federal Form 8582 for specific instructions on how to complete the worksheets.

Worksheet 1 For form FTB 3801, line 1a, line 1b, and line 1c

Name of activity	Current year		Prior year	Overall gain or loss	
	(a) Net income (line 1a)	(b) Net loss (line 1b)	(c) Unallowed loss (line 1c)	(d) Gain	(e) Loss
Total. Enter on form FTB 3801, line 1a, line 1b, and line 1c					

Worksheet 2 For form FTB 3801, line 2a, line 2b, and line 2c

Name of activity	Current year		Prior year	Overall gain or loss	
	(a) Net income (line 2a)	(b) Net loss (line 2b)	(c) Unallowed loss (line 2c)	(d) Gain	(e) Loss
Total. Enter on form FTB 3801, line 2a, line 2b, and line 2c					

Worksheet 3 Use this worksheet if an amount is shown on form FTB 3801, line 9.

Name of activity	Form or schedule to be reported on	(a) Loss	(b) Ratio	(c) Special allowance	(d) Subtract column (c) from column (a)
Total			1.00		

Worksheet 4 Allocation of Unallowed Losses

Name of activity	Form or schedule to be reported on	(a) Loss	(b) Ratio	(c) Unallowed loss
Total			1.00	

Worksheet 5 Allowed Losses

Name of activity	Form or schedule to be reported on	(a) Loss	(b) Unallowed loss	(c) Allowed loss
Total				

Worksheet 6 Activities With Losses Reported on Two or More Different Forms or Schedules

Name of Activity	(a)	(b)	(c) Ratio	(d) Unallowed loss	(e) Allowed loss
Form or schedule to be reported on: _____					
1a Net loss plus prior year unallowed loss from form or schedule					
b Net income from form or schedule					
c Subtract line 1b from line 1a. If zero or less, enter -0-.....					
Form or schedule to be reported on: _____					
1a Net loss plus prior year unallowed loss from form or schedule					
b Net income from form or schedule					
c Subtract line 1b from line 1a. If zero or less, enter -0-.....					
Form or schedule to be reported on: _____					
1a Net loss plus prior year unallowed loss from form or schedule					
b Net income from form or schedule					
c Subtract line 1b from line 1a. If zero or less, enter -0-.....					
Total			1.00		

Worksheets 1 through 6 are **not** required to be filed with your California tax return and may be detached before filing form FTB 3801. Keep a copy of the worksheets for your records.

2008 Instructions for Form FTB 3801

Passive Activity Loss Limitations

These instructions are based on the Internal Revenue Code (IRC) as of **January 1, 2005**, and the California Revenue and Taxation Code (R&TC).

General Information

In general, California law conforms to the Internal Revenue Code (IRC) as of January 2005. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level. For more information, go to our website at ftb.ca.gov and search for **conformity**. Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for California Schedule CA (540 or 540NR), and the Business Entity tax booklets.

The instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the California Revenue and Taxation Code (R&TC) in the tax booklets. Taxpayers should not consider the tax booklets as authoritative law.

Registered Domestic Partners (RDP)

For purposes of California income tax, references to a spouse, a husband, or a wife also refer to a California registered domestic partner RDP, unless otherwise specified. When we use the initials RDP they refer to both a California registered domestic "partner" and a California registered domestic "partnership," as applicable. For more information on RDPs, get FTB Pub. 737, Tax Information for Registered Domestic Partners.

Round Cents to Dollars – Round cents to the nearest whole dollar. For example, round \$50.50 up to \$51 or round \$25.49 down to \$25. If you do not round, the Franchise Tax Board (FTB) will disregard the cents. This helps process your return quickly and accurately.

Military Personnel – Servicemembers domiciled outside of California, and their spouses/RDPs, may exclude the servicemember's military compensation from gross income when computing the tax rate on nonmilitary income. Requirements for military servicemembers domiciled in California remain unchanged. Military servicemembers domiciled in California must include their military pay in total income. In addition, they must include their military pay in California source income when stationed in California. However, military pay is not California source income when a servicemember is permanently stationed outside of California. For more information, get FTB Pub. 1032, Tax Information for Military Personnel.

California law generally conforms to the federal rules for expensing IRC Section 179 property with the exception that California law allows a maximum deduction of \$25,000.

Nonresident

In determining California taxable income, nonresidents compute prior year items by taking into account only those items with a California source, subject to any limitations provided by law. For example, passive losses are limited to passive gains (IRC Section 469 and R&TC Sections 17551 and 17561). Make this computation whether you were always a nonresident or a former resident who moved out of California.

Part-Year Resident

California taxes part-year residents as if they were residents for all prior years. Therefore, a nonresident who becomes a resident must restate all prior year items using the total taxable income for all prior years.

For further information get FTB Pub. 1100, Taxation of Nonresidents and Individuals Who Change Residency.

Renewal Communities

California law does not conform to the tax incentives related to "renewal communities." California law does, however, provide a variety of independent, state-only economic development area tax incentives to encourage revitalization of specially designated areas. The Government Code provides for the designation of Enterprise Zones, Local Agency Military Base Recovery Areas (LAMBRAs), a Targeted Tax Area (TTA), and Manufacturing Enhancement Areas (MEAs). California law does not provide for a lower capital gain tax rate in any situation. California law generally conforms to the federal rules for expensing IRC Section 179 property with the exception that California law allows a maximum deduction of \$25,000. In lieu of this deduction, the California Personal Income Tax law allows a taxpayer with a business in an "Economic Development Area" to elect to expense \$20,000 to \$40,000 (depending on the designation) of certain specified equipment used in the business.

Material Participation in Real Property Business

– **IRC Section 469(c)(7)**: Beginning in 1994, and for federal purposes only, rental real estate activities of taxpayers engaged in real property business are not automatically treated as passive activities. California did **not** conform to this provision. For California purposes, all rental activities are passive activities.

Amortization of certain intangibles – IRC

Section 197: Property classified as IRC Section 197 property under federal law is also IRC Section 197 property for California purposes. There is no separate California election required or allowed. However, for California purposes, in the case of

IRC Section 197 property acquired before January 1, 1994, the California adjusted basis as of January 1, 1994, must be amortized over the remaining federal amortization period.

A Purpose

Individuals, estates, trusts, and S corporations use form FTB 3801, Passive Activity Loss Limitations, to figure both of the following:

- Allowable California passive activity loss (PAL).
- Adjustment you must make to account for any difference between your California PAL and your federal PAL.

Generally, California law is the same as federal law concerning PAL limitations. However, differences, such as the special treatment for real estate professionals (as described in General Information) may cause your California PAL to be different from your federal PAL.

B Who Must File

Form FTB 3801 is filed by individuals, estates, trusts, and S corporations that have losses (including prior year unallowed losses) from passive activities. Additional information for nonresidents, part-year residents, and S corporations is provided below.

Exception. You do not have to file form FTB 3801 if you meet **both** of the following conditions:

- You have a net loss from rental real estate activities that is fully deductible under the special allowance for rental real estate.
- You have no other passive activities.

Full-Year Nonresidents

A full-year nonresident is taxable only on income derived from California sources.

Part-Year Residents

Part-year residents are taxable on all income from all sources while a California resident and only on income derived from California sources while a nonresident.

Full-year nonresidents and part-year residents see **Nonresident and Part-Year Resident Instructions** on page 4.

S Corporations

The PAL rules apply as if the S corporation were an individual. For example, losses from passive activities may not be used to offset other income, except for the \$25,000 special allowance for losses from active participation in rental real estate activities. Refer to IRC Section 469. However, the material participation rules apply as if the S corporation were a closely-held C corporation. The material participation rules for closely-held C corporations are explained in the instructions for federal Form 8810, Corporate Passive Activity Loss and Credit Limitations. Refer to IRC Section 469(h)(4) and the regulations for more information.

To compute your California PAL for S corporations, use the worksheets on Side 2 to determine the amounts to enter on form FTB 3801 and the S corporation's allowed loss.

The S corporation's PAL adjustment will be the difference between the current year net income (loss) from all passive activities before application of the PAL rules and the total allowable net income (loss) from all passive activities after application of the PAL rules. Enter the PAL adjustment on either line 7 or line 13 on Form 100S.

C Coordination with Other Limitations

Generally, losses from passive activities are subject to other limitations, such as basis and at-risk limitations, before they are subject to the passive loss limitations. Once a loss becomes allowable under these other limitations, you must determine whether the loss is limited under the passive loss rules. Get federal Form 6198, At-Risk Limitations, for more information on at-risk rules. However, capital losses that are allowable under the passive loss rules may be limited under the federal IRC Section 1211. Similarly, percentage depletion deductions that are allowable under the passive loss rules may be limited under IRC Section 613A(d).

Complete federal Form 6198 using California amounts before completing form FTB 3801.

Passive Activity Credit Limitations. The following credits may be limited by passive activity income:

Credit	Code
Orphan drug credit carryover	185
Low-income housing	172
Research	183

To determine how much credit is allowed for the current year:

- Individuals, estates, trusts, and S corporations get form FTB 3801-CR, Passive Activity Credit Limitations.
- Personal Service Corporations and closely-held corporations subject to the passive loss rules get form FTB 3802, Corporate Passive Activity Loss and Credit Limitations.

D Overview of Form

This form contains four steps which are briefly described below:

Step 1

Complete form FTB 3801, Side 2, **California Passive Activity Worksheet**, in order to figure your current year California passive activity income (loss) amounts. You must figure the current year California income (loss) amount for each passive activity before application of the PAL rules.

This may require you to figure the California/ federal depreciation or amortization adjustment using form FTB 3885A, Depreciation and Amortization Adjustments.

Step 2

Complete form FTB 3801, Side 1. The result will be your total losses allowed from all passive activities for 2008.

Step 3

Carry the amounts from form FTB 3801, Side 1, to the worksheets on form FTB 3801, Side 3 and Side 4. You will use these worksheets to compute the allowable loss for each separate passive activity.

Step 4

The net income (loss) for each passive activity will be carried back to the California form or schedule on which it is usually reported. If there are no California forms to carry these amounts to (i.e., amounts from federal Schedules C, E, and F), complete the **California Adjustment Worksheets** on form FTB 3801, Side 2.

If you are completing the **California Adjustment Worksheets**, include any nonpassive activities that are reported on the same federal schedules as the passive activities for which you are completing these worksheets. For example, if you have both passive and nonpassive Schedule E activities, you will include all of them on your **California Adjustment Worksheet, Schedule E Activities**.

By including both your passive and nonpassive activities on the **California Adjustment Worksheets**, you will be able to compute a single adjustment amount to transfer to Schedule CA (540 or 540NR), line 12, line 17, or line 18.

General Instructions

Step 1 — Figuring your California Passive Activity Income (Loss)

Use the **California Passive Activity Worksheet** on form FTB 3801, Side 2, to determine the current year California net income or net loss from each passive activity before application of the PAL rules. Enter information for each passive activity on the schedule separately. The amount to enter in column (d) of the schedule is on the federal form on which the activity is reported. If you need more space, attach additional sheets.

Example: You reported a rental loss on federal Schedule E. The amount of this loss before the application of the PAL rules is on federal Schedule E, line 22. Enter this amount in column (d) of the worksheet.

Note for partners, members of limited liability companies (LLCs), and shareholders of S corporations: If you do not materially participate in the activity of a partnership, LLC, or S corporation in which you hold an interest and you determine the activity is passive, skip Step 1 and use the California amount from your Schedule K-1 (565, 568, or 100S), column (d), to complete Worksheet 1 and Worksheet 2 on form FTB 3801, Side 3.

Step 2 — Completing Form FTB 3801, Side 1

Use the amount from the **California Passive Activity Worksheet**, Side 2, column (f) to complete form FTB 3801, Side 3, Worksheet 1 and Worksheet 2. These worksheets will determine the amounts to enter on form FTB 3801, Side 1, lines 1a, 1b, 2a, and 2b. Complete form FTB 3801, Side 1 as follows:

Part I

Enter the amounts from form FTB 3801, Side 3, Worksheet 1 and Worksheet 2.

Get federal Form 8582, Passive Activity Loss Limitations, for specific line instructions and examples.

Line 3

If line 3 shows income, all of your losses are allowed, including any prior year unallowed losses entered on line 1c or line 2c. Transfer the income and losses to the form or schedule on which you normally report them. See Step 4, "Figuring the California Adjustment."

Part II

Enter all numbers in Part II as positive amounts. Get federal Form 8582 for specific line instructions and examples.

Trusts: You do not qualify for the \$25,000 special allowance for rental real estate with active participation.

Estates: If the taxpayer actively participated in rental real estate before death, you may use the \$25,000 special allowance for rental real estate for two years. The \$25,000 special allowance is reduced by the amount used by the surviving spouse/RDP.

Line 5

If you are married/RDPs filing separate returns who lived apart at all times during the year, enter \$75,000 on line 5 instead of \$150,000. If you are married/RDPs filing separate returns who lived together at any time during the year, you are not eligible for this special allowance. You must enter -0- on line 9 and go to line 10.

Line 6

Enter your modified federal adjusted gross income from federal Form 8582, line 7. For RDPs, enter your federal modified adjusted gross income from your refigured federal Form 8582, line 7.

If you are a military servicemember domiciled outside of California, subtract your military pay from your modified federal adjusted gross income.

If you did not complete federal Form 8582, get federal Form 8582 to see how to figure your modified adjusted gross income.

S Corporations: Enter the amount from Form 100S, California S Corporation Franchise or Income Tax Return, line 21 computed without regard to any passive income (loss).

Publicly Traded Partnerships (PTPs)

A PTP is a partnership whose interests are traded on an established securities market or are readily tradable on a secondary market (or

the substantial equivalent). See the information provided for PTPs in the instructions for federal Form 8582 for an explanation of established securities market and secondary market. Also, information which you receive from your partnership will usually indicate whether or not your partnership interest is an interest in a PTP. If you have income or loss from a PTP, see below. All others go to Step 3.

Passive activity loss rules for partners in PTPs

Passive losses from a PTP can only offset income from the same PTP. Therefore, do not include passive income, gains, or losses from a PTP on form FTB 3801, Side 1. Instead, use the following steps to figure and report your income, gains, and losses from PTPs:

1. Combine current year income, gains, losses, and prior year unallowed losses from each activity of the PTP. Determine whether you have an overall gain (total gain/income minus total losses) or an overall loss.
2. If you have an overall gain, the overall gain is gain or income from a passive activity and the total loss is a loss from a passive activity.
3. If you have an overall loss (but did not dispose of your interest in the PTP to an unrelated person in a fully taxable transaction during the year), the net loss is disallowed and carried to the next year. All income or gain is income or gain from a passive activity and losses equal to the amount of income or gain reported is loss from a passive activity.
4. Report all gain or income and any allowed losses on the forms or schedules where the type of gain, income, or loss would usually be reported. For example, a gain from the sale of business property (IRC Section 1231 gain) would be reported on California Schedule D-1, Sale of Business Property. Write "From PTP" to the left of the amount or include it according to your software's instructions.

Remember to use California amounts. Include only the same types of income and losses you would include in figuring your net income or loss from a non-PTP passive activity. For amounts reportable on Schedule E, you will need to use California Adjustment Worksheet, Schedule E Activities. See Step 4, "Figuring the California Adjustment."

Example: You own an interest in a PTP. The PTP reports ordinary income of \$8,000 for federal purposes and ordinary income of \$7,000 for California purposes. The PTP has a prior year IRC Section 1231 unallowed loss of \$3,500 for federal purposes and a prior year IRC Section 1231 (California conforming R&TC Section 18151) loss of \$5,000 for California purposes. You have an overall gain of \$4,500 (8,000 - 3,500) for federal purposes and overall gain of \$2,000 (7,000 - 5,000) for California purposes. You would report "From PTP" \$5,000 loss on California Schedule D-1.

The difference between the California loss of \$5,000 and the federal loss of \$3,500 would be included in the California adjustment on Schedule D (540 or 540NR) or California Schedule D-1. You would report the following on your California Adjustment Worksheet, Schedule E Activities (FTB 3801, Side 2):

(a) Schedule E Activities	(b) Passive or Nonpassive	(c) California Amount	(d) Federal Amount
"From PTP"	Nonpassive	\$2,000	\$4,500
"From PTP"	Passive	\$5,000	\$3,500

Step 3 — Completing the Worksheets on Form FTB 3801, Side 3 and Side 4

After you have completed form FTB 3801, Side 1, complete Worksheets 3, 4, and 5 or 6.

How to Report Allowed Losses

Get federal Form 8582, follow the instructions and use Worksheet 5 and Worksheet 6 to identify the amount of allowed losses from each activity.

Step 4 — Figuring the California Adjustment

After you have completed the Worksheets on Side 3 and Side 4 of form FTB 3801 and you have determined the amount allowed for each activity, you will need to figure your California adjustment.

If California has a separate form or schedule to figure the California adjustment, use it to compute the amount of the California adjustment. Include the allowed losses from Worksheet 5 or Worksheet 6 on the California form(s) or schedule(s) on which they are normally reported. For example, California Schedule D (540 or 540NR) is comparable to federal Schedule D, and California Schedule D-1 is comparable to federal Form 4797, Sale of Business Property.

Where there are no comparable California forms or schedules, use the California Adjustment Worksheets on form FTB 3801, Side 2. Specifically, California does not have forms or schedules comparable to federal Schedules C, E, or F. Each passive activity that has no comparable California form or schedule should be listed on the California Adjustment Worksheet corresponding to the federal schedule where it was reported.

Remember to include nonpassive activity amounts when the nonpassive activities are reported on the same federal schedule as those activities that are passive for California.

Using the California Adjustment Worksheets: Complete column (a) through column (d) of each worksheet. Group all activities from each type of federal schedule on the appropriate worksheet as indicated in column (a). If you need more space, attach additional sheets.

Column (a): Enter a description of the activity. Include passive and nonpassive activities that

are reported on the same federal schedule. For example, if you have one federal Schedule E activity that is passive for California and one Schedule E activity that is nonpassive for California, include both activities and their corresponding amounts on the California Adjustment Worksheet, Schedule E Activities.

Column (b): Enter the character of the activity for California purposes as passive or nonpassive.

Column (c): Enter your California net income (loss) from this activity after application of the PAL rules. This will be the amount of any overall gain from Worksheet 1 and Worksheet 2 and allowed losses from Worksheet 5 and Worksheet 6.

Column (d): Enter the federal net income (loss) from this activity after application of the PAL rules (e.g., Schedule C, line 31; Schedule E income, line 22; Schedule E loss, line 23; and Schedule F, line 36).

If you have an activity that is nonpassive for federal purposes and passive for California purposes (as in the case of rental real estate professionals), use the actual federal amounts allowed in column (d) of the California Adjustment Worksheets.

Complete each California Adjustment Worksheet as follows:

Individuals

1. Add the column (c) amounts and enter the results on the Total line for column (c).
2. Add the column (d) amounts and enter the results on the Total line for column (d).
3. Subtract the Total amount of column (d) from the Total amount of column (c) and enter the difference on the Total line for column (e).
4. California Adjustment column (e):
 - If the Total column (e) amount is positive, you have a California addition. Enter this amount on Schedule CA (540 or 540NR) as follows:

California Adjustment Worksheet	Schedule CA (540 or 540NR)
Total, column 1(e) –	line 12, column C.
Total, column 2(e) –	line 17, column C.
Total, column 3(e) –	line 18, column C.

- If the Total column (e) amount is negative, you have a California subtraction. Enter this amount on Schedule CA (540 or 540NR) as follows:

California Adjustment Worksheet	Schedule CA (540 or 540NR)
Total, column 1(e) –	line 12, column B.
Total, column 2(e) –	line 17, column B.
Total, column 3(e) –	line 18, column B.

Enter all amounts on Schedule CA (540 or 540NR) as positive amounts.

S Corporations

1. Add the column (c) amounts and enter the results on the Total line for column (c).
2. Add the column (d) amounts and enter the results on the Total line for column (d).
3. Subtract the Total amount of column (d) from the Total amount of column (c) and enter the difference on the Total line for column (e).
4. Net the column (e) Total amounts [the sum of line 1(e), line 2(e), and line 3(e)].
 - If the result is positive, enter the result on Form 100S, line 7.
 - If the result is negative, enter the result on Form 100S, line 13 as a positive amount.

Nonresident and Part-Year Resident Instructions

Nonresidents and part-year residents must complete form FTB 3801 and the worksheets twice:

- First, to determine the amounts to enter on Schedule CA (540NR), columns B and C.
- Second, to determine the amounts to enter on Schedule CA (540NR), column E.

Completing the form the first time – Full-Year Nonresidents and Part-Year Residents

- Follow the General Instructions beginning on page 2.
- Complete the form and worksheets as if you were a California resident for the entire year even though you were a nonresident for all or part of the year. A resident is taxable on all income from all sources, including income from sources outside of California. When completing the forms and worksheets the first time, include your passive activity income and losses from all sources for the entire year.
- Worksheets 1 and 2, column (c) – The

amount of prior year unallowed losses is the amount of unallowed losses generated as if you had been a California resident in all prior years.

Completing the form the second time – Full-Year Nonresidents

- Complete the form and worksheets a second time by following the General Instructions beginning on page 2. Complete only Step 1 through Step 3.
- Include only your passive income and losses from California sources.
- Partners, members of a limited liability company (LLC), or shareholders of an S corporation – The note in Step 1 instructs you to use the amount from Schedule K-1 (565, 568, or 100S), column (d). Instead of the amount in column (d), use the amount from Schedule K-1 (565, 568, or 100S), column (e).
- Worksheets 1 and 2, column (c) – The amount of prior year unallowed losses is the amount of prior year unallowed losses from **California sources only** as if you had been a nonresident in all prior years.

Completing the form the second time – Part-Year Residents

- Complete the form and worksheets a second time by following the General Instructions beginning on page 2. Complete only Step 1 through Step 3.
- Include your passive income and losses from all sources for the part of the year you were a resident, plus your California source passive income and losses for the part of the year you were a nonresident.
- For an interest in a non-California source passive activity, you must prorate the income or loss from such activity to be reported during the period you were a resident, unless you have information that specifies when the income or loss was realized. Figure the prorated income or loss as follows:

Number of days you were a <u>California Resident*</u>	x	Amount of income or loss from your Passive Activity
365 days		

* If your passive activity is from a fiscal year

pass-through entity, enter the number of days you were a California resident during the pass-through entity's fiscal year ending in 2008.

Enter the result in column (f) of the **California Passive Activity Worksheet** on form FTB 3801, Side 2.

When completing column c, of Worksheets 1 and 2 on form FTB 3801, Side 3, for non-California source activities, use the same formula noted on this page in column 2.

Useful Publications – You may want to get the following publications:

- FTB Pub. 1031, Guidelines for Determining Resident Status – 2008. This publication provides information on determining residency and whether your income or loss has a California source.
- FTB Pub. 1100, Taxation of Nonresidents and Individuals Who Change Residency. This publication discusses the rules for calculating loss carryovers and includes passive activity loss examples.